DARS
Public Meeting

Proposed Rule -- Reporting of Government-Furnished Property

(2012-D001)

Nov 17, 2011

Industry's Overarching Concerns

- Adds significant direct and indirect cost to the contract and therefore, the Government
  - Unknown and unfunded requirements
- Duplicates efforts until processes streamlined
  - Inefficient (the end to end process not fully identified)
- Reconciliation effort falls on the Contractor and in scope to GPA Property Audits
- Moves away from standard business practices
- Requires system changes and hardware requirements

Adds work - Provides no clear value.

Industry's Overarching Concerns

- Doesn't solve problems or helps users – No clear value
  - Researched and verified against identified audit findings
    - Proposed rule would not have prevented the findings
  - Have not been able to find a willing Gov't participants to test
- No recognition of standard materiality and cost and benefits constraints

Industry's Specific Concerns

- "211.274-4 Policy for reporting of Government-furnished property.
  - It is DoD policy that all Government-furnished property be recorded in the DoD Item Unique Identification (IUID) Registry, …"
- As Regulation -- "all" means "all"
  - Cost vs. Benefit and Counter to
    - Ash Carter memo
    - Gates directive on efficiency
  - Elimination of the $5000 threshold will cost more

Industry's Specific Concerns

"(e) *Procedures for establishing UIIs. To permit reporting of* virtual UIIs to the DoD IUID Registry, the Contractor's **property management system** shall enable the following…"

- The proposed rule directly ties the 211 reporting clause to the property management system in FAR 45 and the interim Business Systems Rule.
  - That clause ""Significant deficiency" means a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes."
  - **Contractors do not expect the system to produce reliable information – in total it will never be current, accurate and complete for years -- this places contractors at high risk.**

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Industry's Specific Concerns

Replacing CAV* with the IUID Registry is not possible with the current capability of the Registry and should not be considered an option until it is fully planned and vetted

- CAV buy in
- CAV requires real time updates
- More transactions than listed in current clause
- CAV is funded
- CAV is manually interfaced, audited and reconciled to Contractor's financial and depot system

* Or other reparable systems

Recommendations

- Do not make this proposed rule an interim or final rule. Rescind the publishing of the rule until there is:
  - Adequate buy-in from the Departments and Agencies to use and fund what items they want to manage.
  - Comprehensive Cost vs. benefit study using “reasonable estimates” and complying with E.O. dated Jan 18, 2011
  - An End to End conceptual framework and infrastructure as to the common business tools the Departments and Agencies need to effectively manage contracts and programs
  - Defined Business Rules for Government Program Management and Contractors
  - Use ASTM E2811-11 “Standard Practice for Management of Low Risk Property (LRP)” per OMB Circular A119

Recommendations

- Develop infrastructure and test within the USG first to test benefits/impacts
- Resolve issues and capability of the Registry before adding additional reporting requirements
- Apply only to ST/STE/EQ
- Reparables when legacy systems (CAVs) ready to be retired.
- Retain the current rule

Recommendations Cont'd

- Use existing reporting requirement capability
  - UID Registry
  - Leverage PCARSS for
    - Contract Transfers
    - Disposal – after all other disposal avenues reviewed
    - Reclamation of items
- Hold a Government Program and Industry Program Management Meeting with key UID POCs
- IUID Registry Access should be via Government eTools.
- Establish Common Process within Government Program Offices Prior to Rule Release

Don't Regulate until you Investigate!

Conclusion

- DoD's objective is be audit ready
- OMB 123 Policy. Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. …

Discussion Items and How We Reached Conclusions

- ST/STE/EQ – The Data
- Reparables
- Material
- Registry Updates and Business Rules
- Examples
- Audits
- Industry Concerns
- Impact Analysis
- Recommendations
- References

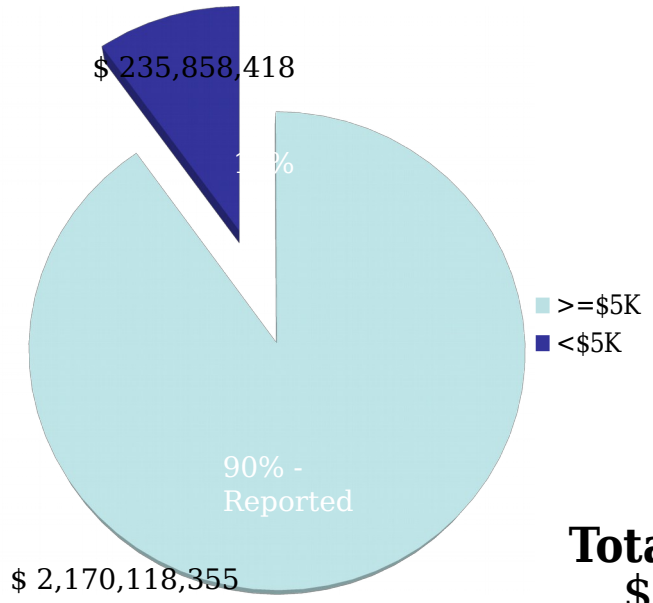
Data

- Surveyed 8 Companies for Data on ST/STE/EQ
- Compared $ With Current Rule and Proposed Rule
- Compared L/I With Current Rule and Proposed Rule
- Identified Impacts

Removal of $5,000 threshold – 692% increase in reporting for ST/STE/EQ L/I's – increased cost to contracts

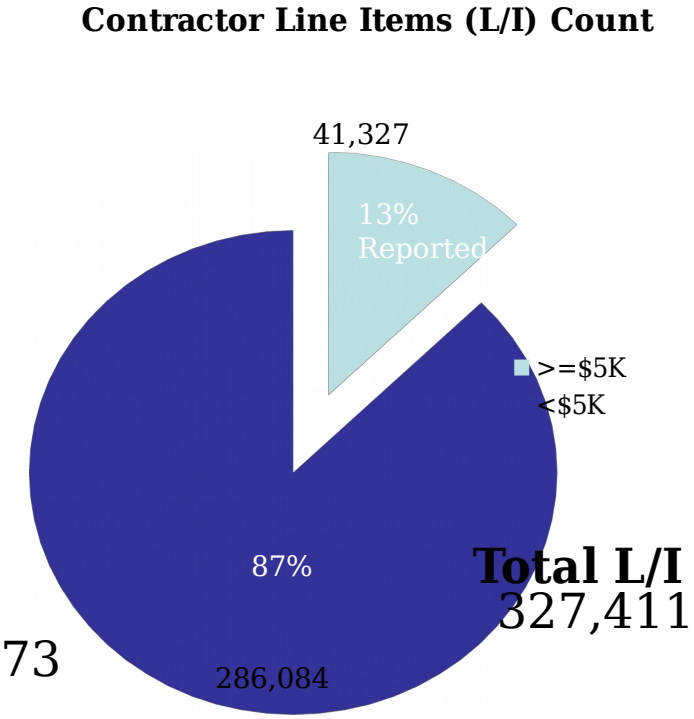
Comparison of Reporting >$5K and All Values of EQ/ST/STE to IUID Registry

Current Process $5K> Reported %



Total $
$2,405,976,773

Proposed Rule ST/STE/EQ All Values by L/I in IUID Registry or GFP HUB

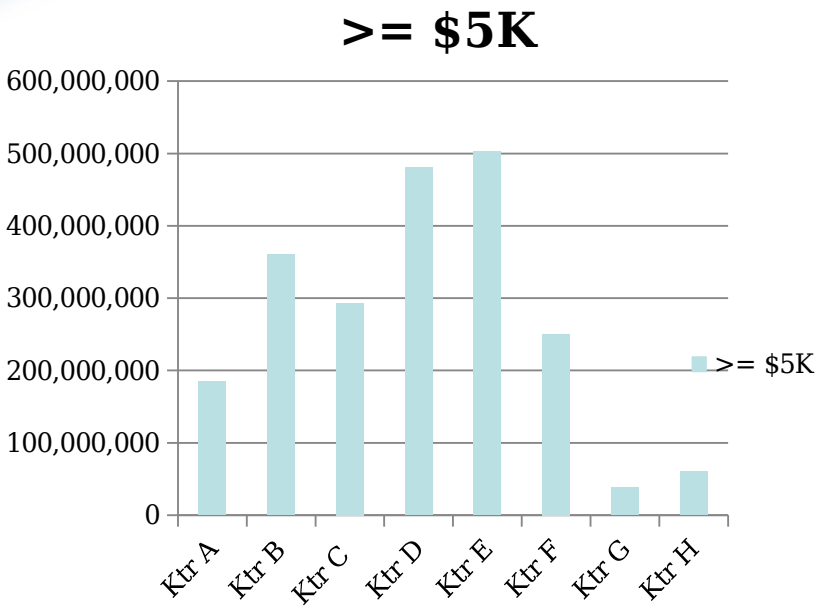


Total L/I
327,411

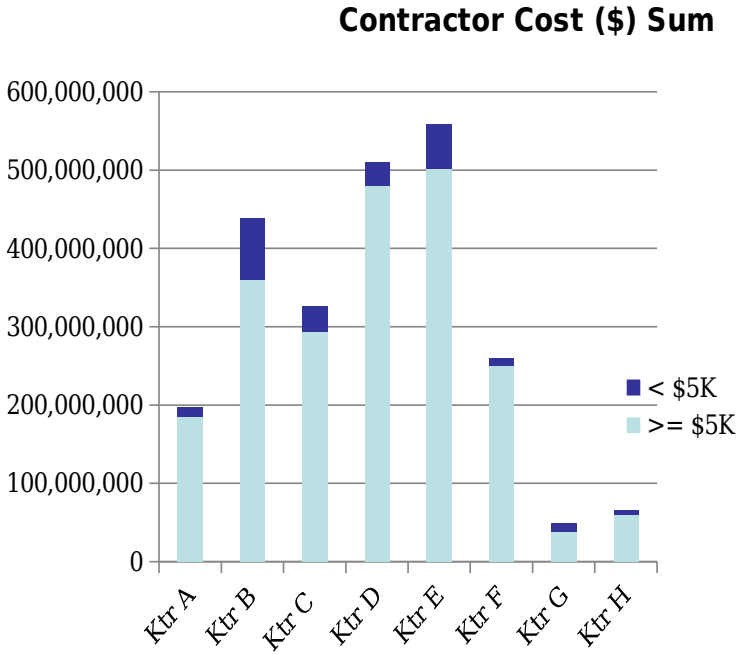
Impact to $: 10% Increase in Dollars Reported
Impact to L/I: 286, 084 addt'l L/I for a 692% Increase in L/I Managed and Reported

Comparison of Reporting >$5K and All Values of EQ/ST/STE to IUID Registry by $

Current $5K in IUID Registry



Proposed Rule ST/STE/EQ All Values in IUID Registry or GFP HUB

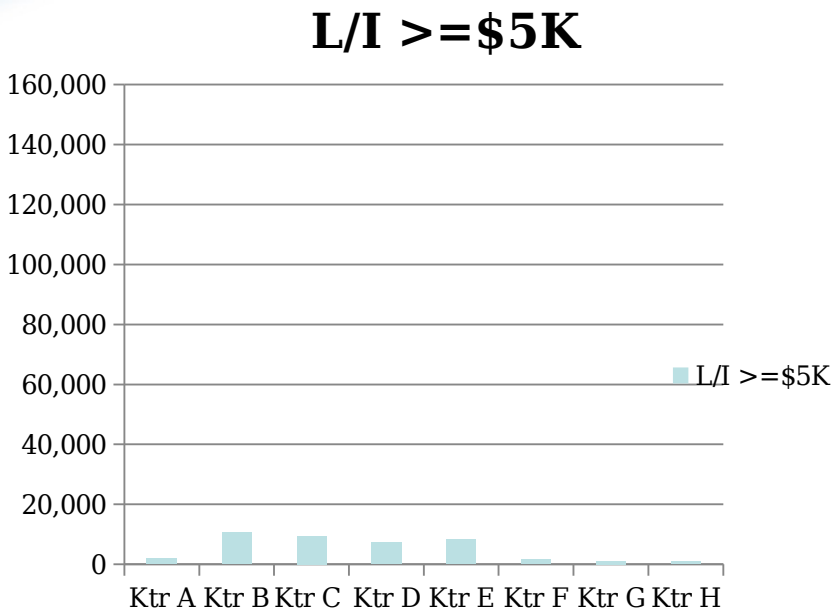


Impact to $: 10% Increase in Dollars Reported Justifies Current Thresholds

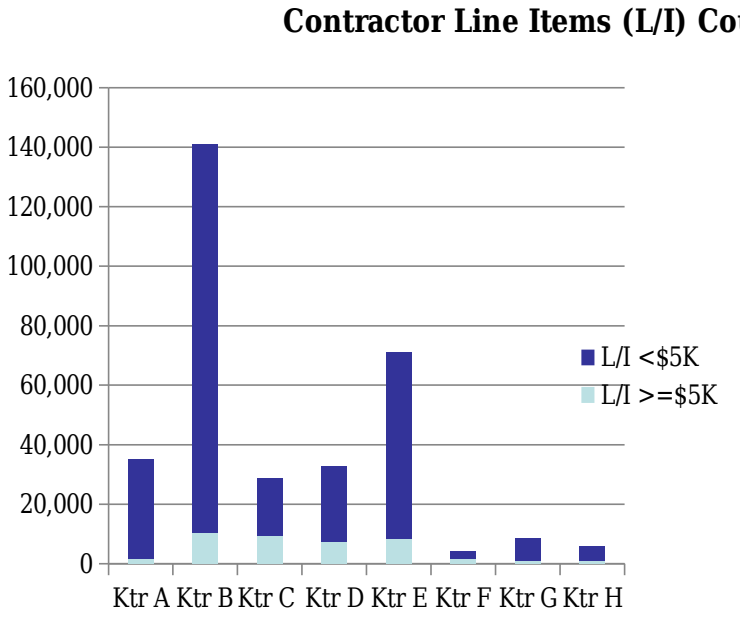
Comparison of Reporting >$5K and All Values of EQ/ST/STE to IUID Registry by L/I

AEROSPACE INDUSTRIES ASSOCIATION

Current $5K L/I in IUID Registry



Proposed Rule ST/STE/EQ All Values by L/I in IUID Registry or GFP HUB



Impact to L/I: 286, 084 additional L/I for a 692% Increase in L/I Managed and Reported
Justifies Current Threshold

Reparables Reported Through CAV*

IUID Registry reporting is independent of CAV reporting.

Normal transactions for an item in CAV:

- Receipt
- Induction
- Completion
- DD1348 Creation
- Shipment
- Proof of Shipment if on GBL, (Skip this step if site is RDO/RFI with ATAC shipping.)

Elimination of CAV = loss of visibility for Agencies/Contractors… Can see history of an item – regardless of where it has been.

REPARABLES Using CAVs Replacement Material

Normal transactions for an item in CAVS:

- Receipt
- Issue
- Disposition – if excessed

REPARABLES- Not Managed through CAVS

Unknown process for level of reporting on embedded items – what are the business rules?

REPARABLES- New Requirement Impacts:

- Duplicate Reporting additional Contract cost
  Example:1 Contract = $90K/year for CAV

- When is CAV scheduled to be retired?
  - Have the Services been notified?
  - Funding in place for long term contracts.
    - Will funds transition to support this new SOW?

- New reporting methods - Training

Prior to Elimination of CAVS = duplicate reporting

MATERIAL

New Requirement Impacts:

- What is reported?
  Our experience is that program management is not engaged and energized?
- Address plans of Program Management Implementation prior to roll-out to Industry
- Receipt and Disposition?
  Frequency? Leverage PCARSS for full use, e.g. contract transfers, disposals and reclamation of items.

Industry concerned with Non-UII Reconciliation in Future Years

Question/Ktr	Ktr A	Ktr B	Ktr C	Ktr D	Ktr E
GFM receipts per month	1500	3000	1800	300	24
Any items managed by serial number – in addition to NSN?	YES	YES	YES many. We don't have a way to distinguish between serial numbered and USG Serially Managed.	YES	YES
Received any GFM that has a UII	Yes, but don't currently record or track by it	Yes, but don't currently record or track by it.	Yes, but don't currently record or track by it.	Yes, but don't currently record or track by it.	Yes, but don't currentl y record or track by it.
Any Material Re Submitted	Yes	No	Yes – Not	Yes several	No

Limited material reporting

Registry Updates and Business Rules

(d) When required by contract terms and conditions, the Contractor shall assign a UII to each item of GFP, including those items previously reported to the IUID Registry. Upon UII assignment and reporting, the Contractor shall update the property record in the IUID Registry.]

- What are the business rules for updates to items previously reported to the IUID Registry?
- How will a contractor know an item is in the Registry?
- What are transactions to “move” an item for the “non-UII” to the “UII” module?
- Will it be the Government’s practice to establish an “O&A” Line Item to capture the cost of items that are unknown… reparables not on contract; IDIQ contracts; etc.

Registry Updates and Business Rules

(i) The Contractor shall make updates as transactions occur or as otherwise stated in the Contractor's property management procedure.
(End of clause)

Questions:

What is a transaction? Isn't it a "trigger event"?

Event/ Property	Receipt	Contract Transfer	Non-UII to UII	Delivery/ Disposal	PCARSS
ST/STE/EQ	x	x	x	x	x
Reparable	x	x	Contract direction	x	x
Material	x	x	Contract direction	Depends on Unit of Issue or Unit of Pack	x

Example

- Is there a trigger event when an item changes property type?
  - From Equipment/ST/STE to Material or
  - Embedded items to Stand Alone

- What are the business rules to manage these scenarios

Audits related to GFP

- General Accountability Office (GAO) GAO-04-779, Navy Needs to Improve the Management Over Government-Furnished Material Shipped to Its Repair Contractors, July 23, 2004
- Reviewed 9 additional GAO reports and do not believe they relate to IUID Reporting and Enterprise Wide Visibility. They are referenced at the end of this presentation
- Audits were isolated incidences of failures of various types – there were no audits that recommended the use of the IUID Registry or expanded use of the IUID Registry

There are certain agencies that are not implementing a “CAV” type process on repair contracts.

Impact Analysis

- Cost
  - Requires each Contractor to develop additional interfaces and maintain 3 or more databases.
    - IUID, CAV, Contractor System(s)
    - Major infrastructure costs (Oracle, SAP, GOLD, AssetSmart, Sunflower)
  - Additional recurring cost
    - Additional Reconciliation necessary for both sides
      - *"An Audit Failure Waiting to Happen" – Receipts/Disposals – What happened to the items in between.....*
    - Multiple manual transactions where interfaces not available

"Our regulatory system must use the least burdensome tools for achieving regulatory ends."Executive Order dated January 18, 2011, Improving Regulation and Regulatory Review

Conflicts with Secretary's efficiency initiative #5; "**Preliminary assessment of efficiency initiatives" Secretary of Defense Gates August 9, 2010**

Impact Analysis

- Inefficient
  - Programs will determine what items are managed and how.
    - Allows for a single item to be UII and non-UII managed depending upon program.
      - *Require manual updates versus electronic*
      - *Requires Contractor to modify systems*
      - *Requires duplicate management processes*
  - Current reporting is based on risk management
    - GFP (ST, STE and Equipment) $5k and over
    - One Government database (IUID Registry)
    - Property used in the performance of the contract
      - *Not consumed or delivered (static)*
    - This proposal expends resources on low risk items – no cost benefit
    - In Industries opinion, the Non-UII section is a registry module.

"Secondary items that do not meet any of these criteria, and for which property accountability requirements are met by determining the quantity on hand, are not required to be IUID marked and registered." Ashton Carter memo dated Dec 30, 2010

Impact Analysis

- Moving away from Standard Business Practice of managing items $5K and above - Materiality
  - Rule greatly expands reporting to include ALL GFP
    - Additional millions of items/transactions reported
    - Duplication of effort for Government and Industry to maintain records

    - **ALL** is an unreasonable requirement. The cost to manage **ALL** GP is a significant impact to **ALL** – Government and Industry. It would require managing 2 sets of records; our own records which support not only the current FAR government Property clause but also our business processes.

Items Not Requiring IUID Marking and Registration: Accountability/Traceability required by Quantity by Case, Weight or Volume –Do Not Mark and Register Class II. Expendable Individual Equipment (one of examples of Class II. Listed) Accountability/Traceability required by Quantity by Each, Unit of Issue or by Case – Do Not Mark and Register Class II. Non-Expendable Individual Equipment and Sets, Kits and Outfits that are not serially managed. Ashton Carter memo dated Dec 30, 2010

References

- Congressional Research Service; Secretary of Defense Gates Preliminary Assessment of Efficiency Initiatives Aug 2010.
- Executive Order dated Jan 18, 2011. “Improving Regulation and Regulatory Review”.
- Ashton Carter memo dated Dec 30, 2010. “Item Unique Identification (IUID) of Tangible Personal Property - Policy Refinement for Secondary Items in Use or in Inventory”.
- OMB Circular A-123, (Revised) Management’s Responsibility for Internal Control

Audits related to GFP

US Army Audit Agency (USAAA) Report No. A-2005-0126-FFE, Management of Government Furnished Property, U.S. Army Garrison, Fort Hood, Texas, dated, Mar 4, 2005. **(Comment: This audit is irrelevant to greater reporting to the IUID Registry -- this is about ineffective contract administration in Kuwait.)**

GAO Report No. GAO-08-316R. Subject: Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait, dated January 22, 2008 **(Comment: This audit is irrelevant to greater reporting to the IUID Registry -- this is about ineffective contract administration in Kuwait.)**

These Reports are not related to "enterprise-wide visibility"

Audits related to GFP

DoD Inspector General (DoD IG) Report No. 2009-089, Internal Controls Over Government Property in the Possession of Contractors at Two Army Locations, dated June 18, 2009. **(Comment: This is a isolated contract administration issue – there are no recommendations relevant improving the number of items in the registry.)**

USAAA Report No. A-2009-0183-ALL, Applying Agreed-Upon Procedures to Determine if There Was a Potential for Theft of Property and Loss of Funds to the Government Due to the Actions of a Government Property Administrator, dated August 14, 2009. **(Comment: This audit is irrelevant to greater reporting to the IUID Registry -- this is about an isolated audit about an individual.)**

USAAA Report No. A-2010-0018-ALL, Audit of Management and Visibility of Government Property Provided to the Contractor Performing Bulk Fuel Operations in Kuwait, dated December 17, 2009. .(**Comment: This audit is irrelevant to greater reporting to the IUID**

These Reports are not related to "enterprise-wide visibility"

Audits related to GFP

AFAA Report No. F2010-0005-FB3000, Government Furnished Equipment Financial Statement Reporting, dated January 11, 2010. . **(Comment: This audit is irrelevant to greater reporting to the IUID Registry -- this is about failed business processes and contract management)**

USAAA Report No. A-2010-0133-FFE, Time Sensitive Report - Accountability of Contractor Acquired Property, Audit of Planning for Disposal of Chemical Demilitarization and Storage Facilities, dated July 13, 2010. **(Comment: This audit is irrelevant to greater reporting to the IUID Registry of GFP -- this is about ineffective contract administration)**

DoD IG Report No. D-2010-088, Accountability and Disposition of Government Furnished Property in Conjunction with the Iraq Drawdown – Logistics Civil Augmentation Program, dated September 30, 2010. . **(Comment: This audit is irrelevant to greater reporting to the IUID Registry of GFP)**